RESEARCH HIGHLIGHT

May 2006

Socio-economic Series 06-011

Housing Allowance Options for Canada

INTRODUCTION

Canada's federal, provincial and territorial governments have a long history of helping low- and moderate-income households obtain housing that is both affordable and decent.

For the most part, assistance has been through supply-side subsidies. These subsidies build new, affordable housing to increase the supply of affordable housing. Thousands of Canadian households benefit from supply-side housing assistance, but housing affordability remains a serious and persistent problem. As a result, there is growing interest in other forms of housing assistance, in particular, in complementing supply-side assistance with demand-side assistance in the form of a housing allowance for certain households. This allowance would defray some of the costs associated with obtaining housing on the open market.

Advocates of demand-side programs argue that, unlike supply-side programs, housing allowances give program participants substantial latitude in deciding where to live. Supply-side housing programs typically direct program participants to specific units in specific buildings. In contrast, housing allowances allow households to search for what they think would best suit them. Housing allowances are portable, as they are provided to tenants, rather than being tied to dwellings.

In Canada, several provinces have had limited-scale housing allowance programs for various lengths of time. Many countries have some form of housing allowance program. A survey of housing allowance programs in Canada and other countries shows how complex and varied these programs can be. Some programs are large, providing substantial benefits to a large number of people. Other programs are small, providing limited benefits to targeted populations.

To gain a comprehensive understanding of the different possibilities, CMHC asked Abt Associates Inc., a consulting firm with substantial expertise in housing allowances and other areas of housing policy, to describe various housing allowance options. Dr. Meryl Finkel led the Abt team, which included, among others, Dr. Marion Steele of the University of Guelph, Dr. François Des Rosiers of Laval University and Michael Mendelson of the Caledon Institute of Social Policy.

The purpose of Abt's work is to present key issues relating to housing allowances. Abt was asked neither to recommend policies nor examine the political dimensions of various options.

Abt's report distinguishes between design options and implementation options. Design options address issues such as who should receive a housing allowance and the level of benefit. Implementation options address such issues as what administrative channels to use to deliver allowances. Abt's report examines both design and implementation options, but the major emphasis is on design options.

Abt's report considers four specific families of design options. Each family uses a different formula to set allowance amounts. Within each family, Abt presents six specific targeting options, ranging from all households in core housing need to select subsets of those in core need.[1] In addition, Abt considers several technical variants of some options, bringing the total number of design options examined to 38.

[1] Core housing need is CMHC's official measure of housing need among Canadian households. For more information about core housing need, see the *Canadian Housing Observer 2005* or the full-length version of Abt's report, *Housing Allowances for Canada*.

Canada

CMHC SCHL
HOME TO CANADIANS

EXISTING HOUSING ALLOWANCE PROGRAMS

In its report, Abt describes existing housing allowance programs in Canada and the United States. An appendix describes housing allowance programs in Europe and other parts of the globe.

Several provinces operate housing allowance programs. These programs are generally small in comparison with other provincial housing programs. The programs generally target specific types of households, such as those with seniors, persons with disabilities or children. Program parameters vary across provinces, but in each case benefits are based on a formula that considers both participant income and rent.[2]

Quebec's program is open to both renters and homeowners; programs outside Quebec are targeted exclusively to renters. With the exception of the Quebec and Saskatchewan programs, the provincial programs are not available to social assistance beneficiaries. All the programs limit enrolment to households with incomes below a set level. For two-person households, these levels range from approximately $20,000 to $26,000 per year. The programs do not generally restrict what recipients can pay for rent, but they do cap benefit amounts once the recipient's shelter expenses exceeds some specified maximum.

One feature of the various provincial programs is that none is open to everyone. In addition to qualifying households based on income, each program targets specific groups such as seniors, families with children and people with disabilities.

A second feature of the provincial programs is that they all make housing more affordable, but recipients still may pay more than 30 per cent of their income on shelter.[3] The main reason for this is that each province sets its allowance to cover just a portion of the gap between actual shelter costs and what is deemed to be affordable.

The U.S. Department of Housing and Urban Development (HUD) oversees that country's Housing Choice Voucher Program (HCVP). The program, authorized under the *United States Housing Act*, sec. 8, is the largest rental assistance program in the U.S. and has existed since 1974.

The program provides vouchers that eligible households can use to rent housing. Participation in the program is restricted to lower-income households. Vouchers can be used to rent apartments, single-family homes, townhouses and other types of housing provided certain standards are met. Voucher recipients pay the difference between actual rent charged by landlords and the amount subsidized by the program. Generally, the subsidy allows the tenant to pay no more than 30 per cent of income towards rent and utilities.

Sixty-one per cent of voucher recipients are families with children. Most of the other recipients are either seniors or disabled persons. Many voucher recipients also participate in other social assistance programs such as Temporary Assistance for Needy Families (TANF). In 2003, the program assisted about two million households. In contrast with provincial housing allowances, the U.S. programs issues payments directly to landlords, rather than tenants.

CREATING A FRAMEWORK FOR ASSESSING OPTIONS

To assess specific policy options, Abt first constructs an evaluation framework, beginning with key program design questions:

- Who should receive housing allowances?
- How large should allowances be?

In addition, Abt establishes a variety of evaluation criteria, including the following:

- Impact on core housing need and affordability
- Impact on housing consumption—to what extent will various design options encourage program participants to alter their housing consumption?
- Program cost—how much are the various design options expected to cost?

Under the heading of indirect program impacts, Abt includes the following evaluation criteria:

- fairness and equity;
- housing market impacts;
- work incentives;
- relationship with other income-support programs;
- relationship with other social policy objectives;
- program complexity and administrative requirements;
- susceptibility to fraud.

DESIGN OPTIONS

Abt considers four families of design options. Each family is based on a different formula for establishing allowance amounts. The formulae in existing housing allowance programs generally tie allowances to both household income and "eligible shelter expense." Eligible shelter

[2] Because these programs tie benefits to both rents and incomes, they are called "rent and income conditioned" by some analysts.

[3] Some participants in the Manitoba programs may reduce their housing expenses to less than 30 per cent, but they are the exception.

expense is the lesser of a household's actual shelter expenses and its maximum eligible shelter expense. In a rental context, "maximum eligible shelter expense" is the highest rent that a program participant can incur before marginal increases in rent cease to yield marginal increases in allowances.

In addition to considering formulae tied to both household income and eligible shelter expenses, Abt considers formulae tied to household income only and to eligible shelter expenses only.

Two of the families of design options considered are rooted in the "affordability gap" concept. Affordability gap is the difference between what a household can reasonably afford to pay for shelter and what it actually pays. Abt follows the common convention of defining affordable as 30 per cent of household income.

Abt's option families address the issue of how much assistance program participants should receive. On the question of who should receive allowances, Abt considers six possibilities, from universally targeting all households in core housing need to selectively targeting subsets of those in core need. Abt also considers several technical variants of some options, bringing the total number of design options examined to 38.

In addition to examining 38 design option formulae, Abt also discusses qualitative program design issues such as:

- Should program participants be allowed to use their benefits to help pay for housing that either is in need of major repair or overly crowded?
- Should allowances be paid directly to program participants or to landlords on behalf of program participants?
- Should allowance levels be based on the actual shelter costs of individual program participants or on typical shelter costs for the area in which the program participant lives?

While Abt considers a large set of design options, the set is not exhaustive. Each option could be refined by adjusting either allowance amounts or eligibility requirements. For example, if policy makers wish to revisit the conventional definition of affordability, they could consider then any number of alternative design options. Similarly, with Partial Gap Coverage options, the percentage of the gap that is covered could be set to any one of an infinite number of values.

Option Family 1: Full Affordability Gap Coverage Options

Under this family of design options, program participants receive allowances that reduce their out-of-pocket shelter expenses to 30 per cent of their household income, if their shelter expenses fall within the prescribed maximum eligible shelter expense. The maximum eligible shelter expense is equal to the median local rent paid by households with identical bedroom requirements as set out in the Canadian national Occupancy Standard. A program of this type would essentially remove allowance recipients from the ranks of core housing need. The U.S. Housing Choice Voucher program provides full affordability gap coverage.

Option Family 2: Partial Affordability Gap Coverage Options

Under this family, program participants receive allowances covering 75 per cent of their affordability gap if their shelter expenses fall within the prescribed maximum eligible shelter expense. If shelter expenses exceed the prescribed maximum, program participants receive allowances covering 75 per cent of the difference between what a household can reasonably afford to pay for shelter and the maximum eligible shelter expense. A program of this type would not remove allowance recipients from the ranks of core housing need, but would reduce their out-of-pocket shelter expense and reduce the depth of their need.

Option Family 3: Flat Subsidy Options

Most existing housing allowance programs rely on complicated formulae to determine the allowance amounts that specific program participants may receive.

Another approach is to give all program participants a flat assistance sum. This approach differs from complicated formulae, as it does not tie benefits to the actual shelter costs of individual program participants.

Abt explores two flat subsidy possibilities: a flat amount of $1,000 and a flat amount of $1,000 subject to phase-out for recipients with incomes close to the eligibility threshold. This approach removes those with relatively minor housing affordability problems from core housing need, while those with more profound problems see their housing become more affordable, but remain in core housing need.

While uncommonly used with housing allowances, flat subsidy schemes play an important role in Canadian social policy. The existing Canada Child Tax Benefit program provides a phased-out flat allowance designed to partially defray the cost of raising children. The benefit is not linked to actual expenses.

Option Family 4: Rent Co-pay Options

In this set of design options, program participants receive an allowance covering a set percentage of their shelter expenses, subject to a maximum.

Abt considers the case of setting allowances at 20 per cent of eligible shelter expenses. This type of allowance would be introduced if policy makers wanted to tie the subsidy to shelter costs rather than to income. Existing provincial property tax rebate programs are a type of co-payment program roughly similar to Rent Co-pay Options.

ELIGIBILITY RULES AND TARGETING OPTIONS

Abt considers six sets of eligibility rules and targeting options:

1. Include all households in core housing need that spend 30 per cent or more of their income on shelter. The other targeting options are all built on this option by adding additional restrictions.
2. Maintain the eligibility rule described in set 1, but restrict program participation by a waiting list to ensure that the program operates within a predetermined budget.
3. Limit eligibility to households with annual incomes of $20,000 or less.
4. Limit eligibility to households with shelter cost-to-income ratios of 50 per cent or more.
5. Limit eligibility to renters.
6. Limit eligibility by type of household. Abt explores limiting eligibility by age (that is, households where either the household maintainer or spouse has reached the age of 55, or another household member has reached the age of 65). Instead of limiting eligibility based on age, policy makers could target households with distinct housing needs, such as households with young children or immigrant households.

EVALUATION OF THE OPTIONS

Abt's report evaluates the options against the evaluation criteria. It is relatively straightforward to estimate the number of households eligible to participate under various design options and program costs. Abt makes these estimates using the "Public Use Microdata File" from the Statistics Canada *2002 Survey of Household Spending*. It is more difficult to formulate concrete estimates of many of the other potential program impacts. In general, Abt does not quantify these impacts, but rather qualitatively describes anticipated impacts.

There are several limitations associated with the "Public Use Microdata File." Most obviously, it is not entirely up to date. More recent data were unavailable and the data do not report the Territories. Because it is not possible to know program participation rates prior to program initiation, Abt's estimates assume that all eligible households will become program participants. In all likelihood, not every eligible household would register to receive an allowance. Abt's report has more information about data limitations and analytical methods.

This *Research Highlight* focuses on what Abt terms "direct program impacts;" that is, impact on core housing need and housing affordability and consumption. Abt's report has more about indirect program impacts, such as impacts on rent levels and quality of the rental stock.

In general, the number of households served does not vary by program option family—option families affect benefit levels, but not eligibility.

That said, lower benefit levels are likely to bring about lower levels of program participation, since some eligible households may not apply for benefits if benefit levels are low. The number of households served does vary by targeting option. Under the broadest target—that of all households in core housing need that spend 30 per cent or more of their income on shelter—there are 1.4 million eligible households.

Under the most narrow target—that of all households in core housing need that spend 50 per cent or more of their income on shelter—there are half a million eligible households.

If program participation is restricted by a wait-listing to ensure that the program operates within a predetermined budget, the number of households that can be served will depend on the size of the predetermined budget. Table 1 gives details about potential enrolment, including provincial estimates.

A Full Affordability Gap Coverage Option would remove program participants from the ranks of core housing need. A Partial Gap Coverage Option would not remove program participants from the ranks of core housing need, but would lighten their rent burden, effectively reducing the depth of their need. A Flat Subsidy Option would remove certain program participants from the ranks of core housing need. Specifically, those that pay only slightly more than 30 per cent of their income on shelter would be removed from core need; while those who pay substantially more than 30 per cent of their income on shelter would only experience a reduction in the depth of their need. The same is true with respect to a Rent Co-payment Option.

Larger allowances will affect the housing consumption of program participants more than smaller allowances. The manner in which allowance levels are tied to housing consumption may also affect the degree to which housing consumption may be affected. To the extent that program participants use their allowances to move, housing quality is likely to improve.

A Full Gap Coverage Option would have the most substantial impact on housing consumption. If allowances are based on actual shelters cost, a Full Gap Coverage Option may motivate certain program participants to increase their housing consumption. This may entail moving to higher quality housing.

The motivation to increase housing consumption derives from two channels. First, the allowance will effectively increase the income of program participants and this may lead to additional housing consumption. This possibility is called an income effect.

Table 1 – Eligible Households

	In Core Housing Need	Household Income Less than $20,000	STIR Greater than 50%	Renters	Senior-led Households
All of Canada	1,431,064	1,063,637	487,798	1,095,379	660,735
Newfoundland and Labrador	15,971	15,256	3,255	13,125	5,349
Price Edward Island	5,707	5,373	1,763	4,457	2,743
Nova Scotia	40,501	33,921	13,615	30,410	16,980
New Brunswick	20,322	19,831	5,309	13,882	11,014
Quebec	317,760	303,692	103,673	290,601	144,744
Ontario	630,465	379,423	201,650	447,623	309,011
Manitoba	41,281	39,228	12,890	34,779	22,818
Saskatchewan	35,123	30,641	9,284	23,729	17,399
Alberta	80,306	64,907	28,242	54,421	42,472
B.C.	243,628	171,365	108,117	182,352	88,205

Second, if allowances are based on actual shelter cost, then the costs associated with increasing housing consumption would not be borne by the program participant; rather, they would be borne by the allowance program because the participant's allowance level would increase by an amount equal to the incremental cost of the increased housing consumption. This possibility is called a price effect.

A Partial Gap Coverage Option would have a smaller impact on housing consumption than a Full Gap Coverage Option. A key reason for this is that since program participants would incur some the costs associated with any increase in housing consumption, the price effect described above would be smaller. The Rent Co-payment Option would probably affect housing consumption in a manner similar to that of the Partial Gap Coverage Option.

The impact on housing consumption would be lower if allowances are not tied to actual shelter costs, as is the case with the Flat Subsidy options. A Flat Subsidy Option would effectively increase program participant income, but there would not be a price effect of the sort described above. Under a Flat Subsidy Option, increases in housing consumption do not increase allowance levels, so there is less likelihood that consumption would increase.

While it is likely that different design options would affect housing consumption differently, it was outside the scope of this project to estimate exactly how each Option might affect consumption.

CONCLUSION

Housing allowances can be structured in a virtually unlimited number of ways. They can be operated as large-scale programs offering deep subsidies or as large-scale programs offering shallow subsidies. Alternatively, they can be targeted, niche programs with either deep or shallow subsidies.

Allowance formulae can be structured in many different ways, as can eligibility requirements. Abt develops not only a large array of policy options, but also a systematic framework for evaluating options. Policy makers from across the world can use this framework as a template for analyzing both existing and proposed allowance programs.

Abt does not recommend one design option family over another or one targeting option, but says:

The question that must frame the design of an allowance … is what is the objective of the allowance.

This is the key question for policy makers interested in implementing a housing allowance program.

CMHC Project Manager: Steven Ehrlich

Consultant: Abt Associates, Inc.

Housing Research at CMHC

Under Part IX of the *National Housing Act*, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research.

This fact sheet is one of a series intended to inform you of the nature and scope of CMHC's research.

To find more *Research Highlights* plus a wide variety of information products, visit our website at

www.cmhc.ca

or contact:

Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario
K1A 0P7

Phone: 1 800 668-2642
Fax: 1 800 245-9274

©2006. Canada Mortgage and Housing Corporation
Printed in Canada
Produced by CMHC 20-06-06

OUR WEBSITE ADDRESS: www.cmhc.ca

Although this information product reflects housing experts' current knowledge, it is provided for general information purposes only. Any reliance or action taken based on the information, materials and techniques described are the responsibility of the user. Readers are advised to consult appropriate professional resources to determine what is safe and suitable in their particular case. Canada Mortgage and Housing Corporation assumes no responsibility for any consequence arising from use of the information, materials and techniques described.

65086